

Message Text

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PAGE 01 MANILA 06320 01 OF 02 302025Z

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ACTION EA-13

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC IMMEDIATE 3873

S E C R E T SECTION 1 OF 2 MANILA 6320

LIMDIS

FOR HUMMEL AND ALDRICH

E.O. 11652: GDS

TAGS: ETRD, EGEN, RP, US

SUBJECT: ECONOMIC NEGOTIATIONS; PHILIPPINE TRADE BARRIERS TO
EXPORTS OF AGRICULTURAL PRODUCTS

REF: A. STATE 111535;

B. STATE 110811;

C. STATE 107689;

D. STATE 104041;

E. MANILA 5616

BEGIN SUMMARY: IN RESPONSE TO DEPARTMENT REQUEST EMBASSY FORWARDS
COMMENT ON PHILIPPINE BARRIERS TO TRADE IN AGRICULTURAL
PRODUCTS OF INTEREST TO U.S. WHILE PHILIPPINES HAS NUMBER OF
TARIFF AND NON-TARIFF BARRIERS ON SUCH PRODUCTS, U.S. COMMANDS
40 TO 50 PERCENT OF GROWING PHILIPPINE MARKET FOR AGRICULTURAL
GOODS. BARRIERS DO NOT APPEAR TO BE IMPORTANT IMPEDIMENT TO
TRADE IN PRODUCTS OF GREATEST INTEREST TO U.S. HOWEVER, FOR
SOME PRODUCTS, MANY OF THEM CURRENTLY LOW VOLUME CONSUMER GOODS,
BARRIERS, IMPOSED PRINCIPALLY FOR SOCIAL AND BALANCE OF PAYMENTS

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PAGE 02 MANILA 06320 01 OF 02 302025Z

REASONS, ARE CURTAILING IMPORTS.

EMBASSY CANNOT RECOMMEND MAJOR NEGOTIATING EFFORT TO REDUCE BARRIERS NOT VISIBLY INTERFERING WITH TRADE OR NOT OFFERING SIGNIFICANT BENEFITS TO U.S. IN RELATION TO ANTICIPATED PHILIPPINE RESISTANCE. LEADING U.S. OBJECTIVES IN EMBASSY VIEW SHOULD BE (A) FIXING OR LOWERING OF 20 PERCENT DUTY ON SOYBEAN OIL, (B) EXTENSION TO SOYBEAN OIL RATE TO COTTONSEED OIL, (C) FIXING OF 10 PERCENT DUTY ON SOYBEAN AND SOYBEAN MEAL, (D) REDUCTION TO 10 PERCENT OF DUTIES ON PRIVATE SECTOR IMPORTS OF CORN, RICE AND SORGHUM, AND (E) REDUCTION TO 50 PERCENT OR LESS OF DUTY ON TOBACCO. EMBASSY DOES NOT BELIEVE U.S. SHOULD SEEK MORE THAN INFORMAL ASSURANCES ON WHEAT MARKET SHARE WITHOUT BEING PREPARED PROVIDE BINDING ASSURANCES OF SUPPLY AT PRICES AND ON TERMS COMPARABLE TO COMPETING SOURCES. END SUMMARY.

1. REFTELS HAVE REQUESTED EMBASSY COMMENTS ON PHILIPPINE TARIFF AND NON-TARIFF BARRIERS ON AGRICULTURAL PRODUCTS. TOTAL AMOUNT OF TRADE INVOLVED IN PRODUCTS IDENTIFIED BY AGRICULTURE TO DEPARTMENT REPORTED AS \$130 MILLION, BUT FIGURES AVAILABLE LOCALLY SUGGEST ABOUT \$100 MILLION INCLUDING EFFECTS OF PRICE CHANGES LAST YEAR. APART FROM WHEAT, MISSION HAS NOT BEEN INFORMED OF COMMODITIES INVOLVED IN INTER-DEPARTMENTAL DISCUSSIONS. EMBASSY COMMENTS ON PRIORITIES FOR NEGOTIATIONS ARE FOLLOWED BY ITS COMMODITY-BY-COMMODITY REVIEW OF PRODUCTS OF SIGNIFICANT INTEREST TO U.S.

2. BROADLY SPEAKING, PHILIPPINE RESTRICTIONS ON AGRICULTURAL IMPORTS FALL INTO FOUR GROUPINGS. FIRST, ON SUCH PRODUCTS AS WHEAT AND COTTON 10 PERCENT DUTIES, NOT INTENDED TO INTERFERE IN A SUBSTANTIAL WAY WITH TRADE, ARE IMPOSED FOR REVENUE REASONS. IN EMBASSY VIEW THESE DUTIES CANNOT BE DEMONSTRATED TO HAVE SIGNIFICANT EFFECT ON TRADE AND THEIR REMOVAL SHOULD NOT BE A PRIORITY U.S. CONCERN. SECOND, ON WIDE RANGE OF NON-ESSENTIAL CONSUMER GOODS, TARIFF AND NON-TARIFF BARRIERS (PRINCIPALLY FOREIGN EXCHANGE CONTROLS) ARE USED TO LIMIT CONSPICUOUS CONSUMPTION AND RESULTANT EMPHASIS OF INCOME INEQUALITIES AND TO CONSERVE FOREIGN EXCHANGE FOR HIGHER PRIORITY USES. PHILIPPINE GOVERNMENT CAN BE PREDICTED TO VIEW U.S. TRADE INTEREST IN THESE COMMODITIES AS OF LESSER CONCERN THAN PHILIPPINE INTERESTS IN FOREGOING SOCIAL AND BALANCE OF PAYMENTS FACTORS. THIRD, DUTIES ON

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PAGE 03 MANILA 06320 01 OF 02 302025Z

GRAIN IMPORTS AND PROHIBITION OF PRIVATE GRAIN TRADE REFLECT IMPORTANCE THIS SECTOR TO NATIONAL ECONOMY. EMBASSY BELIEVES PHILIPPINES MIGHT BE WILLING TO MODIFY SOME BARRIERS IN THIS AREA, WHILE CONTINUING TO RETAIN CONTROL OVER ANY MAJOR INFLUENCES ON THIS ESSENTIAL SECTOR. FOURTH, FOR A NUMBER OF OTHER BARRIERS PROTECTION OF DOMESTIC PRODUCERS HAS BEEN A DOMINANT FACTOR. WITHIN THIS AREA EMBASSY BELIEVES, SUBJECT TO CONTINUANCE OF SIGNIFICANT WORLD PRICE SPREAD BETWEEN SOY AND COCONUT OIL,

PROSPECTS EXIST FOR OBTAINING PHILIPPINE COMMITMENT TO RETAIN 10 PERCENT REDUCED DUTIES ON SOYBEANS AND SOYBEAN MEAL AND TO RETAIN OR FURTHER REDUCE DUTY ON SOYBEAN OIL; THIS MIGHT BE EXPANDED TO INCLUDE COTTONSEED OIL AMONG EDIBLE OILS CHARGED 20 PERCENT OR LESSER DUTY. IN ADDITION, CURRENT 100 PERCENT DUTY ON TOBACCO IMPORTS PRESENTS PROBLEM TO PHILIPPINE CIGARETTE PRODUCERS AND MEANS MIGHT BE FOUND TO WORK OUT ACCOMMODATION AMONG TOBACCO GROWER AND USER INTERESTS IN BOTH COUNTRIES WHICH MIGHT LINK SIGNIFICANT REDUCTION IN THIS DUTY TO REDUCTION OF U.S. DUTY ON PHILIPPINE TOBACCO. PROPOSAL TO OBTAIN PHILIPPINE UNDERTAKING FOR MINIMUM ANNUAL PURCHASE US WHEAT PRESENTS PROBLEMS OF ENTIRELY DIFFERENT ORDER FROM THOSE DISCUSSED ABOVE. AS WASHINGTON WELL AWARE, PHILIPPINES HAS NEVER BEEN UNMINDFUL OF U.S. INTEREST IN ITS SHARE OF PHILIPPINE WHEAT MARKET. OVER PAST SIX YEARS THE U.S. SHARE HAS AVERAGED 84 PERCENT DESPITE THE OFFER BY CANADIANS OF FINANCIAL TERMS WHICH IN CONTEXT OF 1971 PHILIPPINE FOREIGN EXCHANGE SITUATION FOR EXAMPLE WAS HARD FOR GOP TO REFUSE. WE MUST ALSO CONSIDER SUCH A PROPOSAL --AS WE HAVE ADVISED VARIOUS USDA VISITORS IN RECENT MONTHS-- IN THE LIGHT OF SUDDEN US WITHDRAWAL OF CREDIT ARRANGEMENTS AND OF OUR INABILITY TO GUARANTEE EITHER SUPPLY OR PRICE LEVEL IN LAST YEAR'S SCARCITY SITUATION. TO SUGGEST TO SUGGEST TO GOP A MORE FORMAL UNDERTAKING IN VIEW OF THAT HISTORICAL PERFORMANCE RAISES THE PROSPECT THAT THE PHILIPPINES WOULD LEGITIMATELY SEEK ASSURANCES FROM THE U.S. OF MINIMUM SUPPLY AT AGREED PRICES IN A SPECIFIED RANGE OR ON FINANCING TERMS COMPARABLE TO THOSE OFFERED BY COMPETING SUPPLIERS.

NOTE BY OC/T: STADIS CAPTION REMOVED PER EA/PHL, MR. WILNER.
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PAGE 01 MANILA 06320 02 OF 02 291247Z

41
ACTION EA-13

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S E C R E T SECTION 2 OF 2 MANILA 6320

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4. (A) WHEAT. WHEAT THROUGH THE YEARS HAS BEEN PRINCIPAL U.S. AGRICULTURAL EXPORT TO PHILIPPINES. IN 1973 EXPORTS AMOUNTED TO \$41 MILLION OR 85 PERCENT OF PHILIPPINE WHEAT IMPORTS. U.S. SHARE OF MARKET IN PAST SIX YEARS HAS NEVER FALLEN BELOW 63 PERCENT. PHILIPPINE TARIFF ON WHEAT WAS SET AT 10 PERCENT IN JANUARY 1973 AS A REVENUE MEASURE. LEVEL OF TARIFF HAS NOT HAD DISCERNIBLE EFFECT ON MARKET OPPORTUNITIES. FOREIGN EXCHANGE CONTROLS EXIST FOR WHEAT, BUT ALLOCATIONS HAVE BEEN ADEQUATE TO WHEAT DEMAND, AND SOME SUBSTITUTION OF WHEAT FOR RICE HAS BEEN ATTEMPTED.

(B) COTTON. COTTON IS SECOND LEADING U.S. AGRICULTURAL EXPORT TO PHILIPPINES VALUED AT GDWOMQ MILLION IN 1973. COTTON HAS DUTY OF 10 PERCENT IMPOSED IN JANUARY 1973. DUTY IS BELIEVED TO HAVE SOME EFFECT ON COMPETITIVENESS BETWEEN COTTON AND MAN-MADE FIBERS. HOWEVER, DUTY ON LATTER IS ALSO 10 PERCENT. INTENT OF THIS DUTY ON COTTON AS WELL AS DUTY ON WHEAT APPEARS TO BE PRIMARILY REVENUE RAISING RATHER THAN DISCOURAGEMENT OF IMPORTS.

(C) SOYBEANS AND SOYBEAN MEAL. THE THIRD LEADING AGRICULTURAL PRODUCT OF THE U.S. TO THE PHILIPPINES AT ABOUT \$8 MILLION IN 1973. TARIFF ON SOYBEANS WAS RECENTLY REDUCED TO 10 PERCENT. SOYBEAN MEAL PREVIOUSLY ENJOYED 10 PERCENT RATE. MARKET OPPORTUNITIES ARE BELIEVED TO BE GOOD BECAUSE OF GROWTH IN LIVESTOCK AND POULTRY INDUSTRIES HERE.

(D) EDIBLE OILS. DUTY ON SOYBEAN OIL WAS RECENTLY REDUCED FROM 50 PERCENT TO 20 PERCENT. AT CURRENT PRICES OF COCONUT OIL,
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PAGE 02 MANILA 06320 02 OF 02 291247Z

IMPORTS OF SOYBEAN AND COTTONSEED OIL IN CONSIDERABLE VOLUME SHOULD BE POSSIBLE AND FINANCE SECRETARY VIRATA HAS SAID THE HOPE IS THAT A SIZEABLE AMOUNT WILL BE BOUGHT TO RELEASE COCONUT OIL FOR EXPORT. WHETHER THROUGH OVERSIGHT OR DELIBERATELY, PHILIPPINES OMITTED COTTONSEED OIL FROM GROUP OF EDIBLE OILS ON WHICH DUTY WAS RECENTLY REDUCED.

(E) TOBACCO. TOBACCO HAS BEEN FOURTH LEADING U.S. AGRICULTURAL EXPORT TO PHILIPPINES WITH 1973 TOTAL AT \$8 MILLION. PHILIPPINES USES HIGH-GRADE U.S. TOBACCO TO BLEND WITH LOWER GRADES PHILIPPINES TOBACCO TO IMPROVE OVERALL QUALITY OF PHILIPPINE CIGARETTES. DUTY RATE IS 100 PERCENT. THIS HEIGHT OF DUTY WOULD APPEAR TO BE DISCOURAGING TRADE AND IS SOURCE OF CONCERN TO PHILIPPINE PRODUCERS AND U.S. TOBACCO EXPORTERS. ALSO, PHILIPPINE VIRGINIA TOBACCO ADMINISTRATION'S LACK OF STOCKS MAKES THIS PROPITIOUS TIME TO REQUEST PERMANENT ELIMINATION OF REQUIREMENT THAT IMPORTERS PURCHASE FROM IT FOUR TIMES AMOUNT IMPORTED.

(F) GRAINS. TRADE IN CORN AND OTHER GRAINS HAS BEEN RESERVED TO PUBLIC SECTOR WHICH HAS NOT BEEN SUBJECT TO DUTIES. U.S.

EXPORTS OF CORN TO PHILIPPINES HAVE BEEN HIGHLY VARIABLE BUT EXPORT OPPORTUNITIES IN SIZEABLE AMOUNTS ARE AVAILABLE. DUTY ON IMPORTS BY PRIVATE SECTOR OF SORGHUM IS 100 PERCENT, CORN 70 PERCENT AND RICE 70 PERCENT. SIZEABLE U.S. MARKET OPPORTUNITIES FOR RICE ARE NOT BELIEVED TO EXIST.

(G) RAISINS AND GRAPES. DUTIES ON THESE PRODUCTS WERE RAISED TO 100 PERCENT IN JANUARY 1973. PRESENT LEVEL OF DUTIES IS PROVING TO BE A BARRIER TO TRADE. IN ADDITION, GOP HAS LIMITED FOREIGN EXCHANGE ALLOCATIONS FOR THESE PRODUCTS IMPORTS OF WHICH HISTORICALLY HAVE RISEN TO AN ANNUAL HIGH OF MORE THAN \$500,000.

(H) CITRUS PRODUCTS. THESE TWO HAVE BEEN CLASSIFIED AS NON-ESSENTIAL CONSUMER GOODS WITH TARIFF LEVELS AT 100 PERCENT OF VALUE AND RESTRICTIONS ON FOREIGN EXCHANGE ALLOCATIONS. TRADITIONAL MARKET FOR THESE PRODUCTS IS IN THE RANGE OF \$2 MILLION ANNUALLY.

(I) OTHER NON-ESSENTIAL CONSUMER ITEMS. A NUMBER OF OTHER AGRICULTURAL PRODUCTS INTENDED FOR CONSUMER USE SUCH AS NUTS AND OTHER FRUITS HAVE BEEN SIMILARLY TREATED BY THE PHILIPPINE GOVERNMENT WITH THE RESULT THAT IMPORTS HAVE EITHER LAGGED BEHIND HISTORICAL LEVELS OR BEHIND ESTIMATED LEVELS OF CONSUMER DEMAND.

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Message Attributes

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